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SIADI ----- FIW 97-031 -----

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Directorate of Intelligence



Economic Intelligence Weekly

APPROVED FOR
RELEASE
DATE: APR 2007

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(b) (3)

2 August 1997



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DI EIW 97-031
2 August 1997

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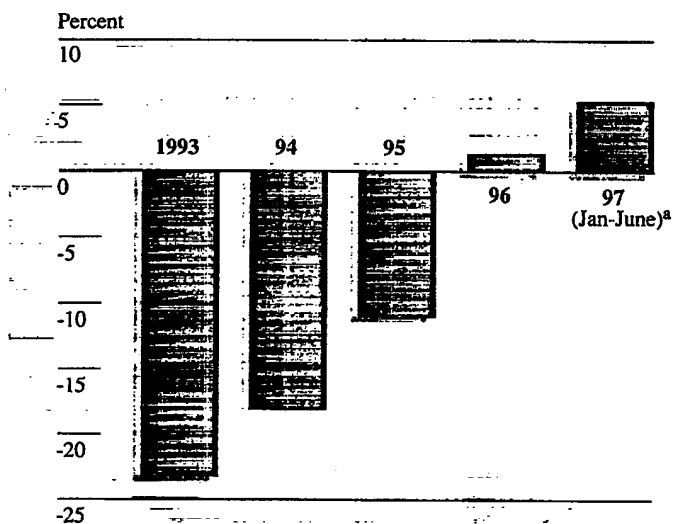
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Azerbaijan: Real GDP Growth, 1993-97



^aFirst-half 1997, as compared with first-half 1996.

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Eurasia

Reforms Fueling Azerbaijani Economy

Azerbaijan's economy grew during the first half of this year, increasing 5 percent over the same period last year and reversing a five-year contraction of more than 50 percent. Foreign investment in energy-related sectors—at \$400 million, almost double that of the same period last year—is fueling much of the growth.

Baku's economic reform plan, introduced in 1995, has been a key factor in creating the macroeconomic stabilization needed to attract large volumes of foreign investment. Baku has held the budget deficit to less than 2 percent of GDP and kept inflation to a cumulative 1 percent so far this year.

— Monetary discipline has kept the Azerbaijani *manat* firm against the US dollar since early last year.

Baku's mass privatization program, launched this spring, appears on track to meet ambitious IMF goals to privatize half of the country's 3,200 large firms and 90 percent of its arable land by the end of next year, according to official statistics.

— To date, the government has sold off 100 large firms and has distributed more than a fourth of targeted agricultural land to the private sector.

IMF officials say they are encouraged by economic progress thus far but warn that Baku's chief challenge in the next several years will be to stay the course and continue implementing reforms. The IMF argues that Baku's window of opportunity to restructure the economy extends to the turn of the century when major oil projects come online.

— At that point, the projected surge in oil wealth could weaken the government's resolve for further painful reform.